

Memorandum for:

This paper was prepared for Mr. Lester Davis,
International Economist, Department of Commerce
by the Office of European
Analysis. It will be used for background
information for the Commerce Department
publication "United States Trade: Performance
in 1985 and Outlook."

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FILE

DATE 5/19/86
DOC NO EUR M 86-20070
OCR 3
P&PD 1

EUR M 86-20070



6 May 1986

EUR A

**Office of European Analysis
Directorate of Intelligence**

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Central Intelligence Agency



Washington, D.C. 20505

Directorate of Intelligence

6 May 1986

MEMORANDUM FOR: Mr. Lester Davis
International Economist
Department of Commerce

FROM: : [redacted]
Senior Economist
Office of European Analysis

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SUBJECT : Impact of US Import Demand on OECD Economic
Activity

1. In response to your request for information on the impact of US import demand on economic activity in the rest of the OECD, I am forwarding the attached memorandum, OECD: Impact of the US Import Surge. In general we conclude that the surge of US imports in 1984 and 1985 has had a very dramatic impact on economic growth in the OECD, but that the stimulus in 1985 was only about half as great as that in 1984. [redacted]

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2. If I can be of further assistance please call me at [redacted]

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Attachment: As stated

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In addition to the direct contribution of export growth to GNP increases, we believe that a substantial multiplier effect exists whereby the additional export earnings are spent and respent locally, boosting each gaining country beyond the original stimulus. Further, each country gains by increasing its exports to the other non-US OECD countries. We estimate that the total impact of the US surge in imports was to boost non-US OECD growth by 0.7 percentage points in 1985, much less than in 1984, but still highly significant <1>. Thus nearly one-fourth of non-US OECD growth that occurred in 1985 can be attributed to the direct and indirect stimulus of high US import demand.

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**Total Impact of US Import Demand on Non-US OECD Economic Growth
(change in real GNP growth rates)**

	Non-US OECD	EC-10	West Germany	United Kingdom	France	Italy	Canada	Japan
1983	0.5	0.6	0.5	0.7	0.5	0.5	2.4	0.9
1984	1.3	1.2	1.2	1.5	0.9	1.2	4.3	2.3
1985	0.7	0.6	0.8	0.3	0.6	0.7	0.8	1.6

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<1> The estimations are based on simulations with the Linked Policy Impact Model (LPIM). To estimate the impact, a counterfactual simulation was performed assuming that US real imports from each country remained at 1982 levels in 1983-85. No changes were introduced regarding monetary or fiscal or exchange rate policy. The results of this counterfactual were compared to the baseline scenario which closely replicates actual economic performance over the 1983-85 period. These estimates of the "total" effect are not strictly comparable to the "direct" effect results shown on page 2, since the latter figures refer to the change in export volume as a percent of GNP rather than the change in the growth rate of GNP.

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Direct Contribution of Change in Export Volume
 to Change in Real GNP
 (change in export volume as a percent of real GNP)

	1982 =====	1983 =====	1984 =====	1985 =====
Non-US OECD				
Total exports	0.3	1.0	2.4	1.4
Exports to the US	0.2	0.6	1.3	0.5
GNP growth	0.9	2.0	3.5	3.0
EC 10				
Total exports	0.4	0.7	2.1	1.7
Exports to the US	-0.1	0.3	0.7	0.4
GNP growth	0.6	1.5	2.4	2.2
West Germany				
Total exports	1.2	-0.4	2.4	2.4
Exports to the US	0.1	0.3	0.8	0.5
GNP growth	-1.0	1.5	2.7	2.2
France				
Total exports	-0.5	1.0	1.7	0.7
Exports to the US	Negl.	0.2	0.6	0.2
GNP growth	1.8	0.7	1.6	1.0
United Kingdom				
Total exports	0.3	0.2	1.8	2.0
Exports to the US	0.4	0.1	0.5	0.4
GNP growth	1.9	3.2	2.6	3.5
Italy				
Total exports	0.4	1.1	1.7	1.4
Exports to the US	0.1	0.2	1.0	0.5
GNP growth	-0.5	-0.4	2.6	2.4
Canada				
Total exports	-0.7	1.6	4.6	4.9
Exports to the US	-0.1	2.3	4.1	1.4
GNP growth	-4.4	3.3	5.0	4.3
Japan				
Total exports	0.2	1.2	3.2	1.5
Exports to the US	0.3	0.9	2.2	1.1
GNP growth	3.3	3.4	5.8	4.4

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OECD: Impact of the US Import Surge

The slowing in US economic growth in 1985 coupled with the slip in the value of the US dollar has slowed the growth of imports, in contrast with the experience in 1984. Although imports from the OECD rose six percent from about \$205 billion in 1984 to about \$217 billion in 1985, this increase was only about one-fifth the 34 percent increase experienced in 1984. Exports from all of the major European trading partners--except the United Kingdom--experienced increases, with Italy and France showing the greatest gains, each at 12.5 percent. Japan's rise in exports to the US was 10 percent; Canada had a modest gain of three percent.

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US Imports from the OECD
(billions of US dollars)

	1982 ----	1983 ----	1984 ----	1985 ----
OECD	142	153	205	217
EC 10	42	44	58	63
West Germany	12	13	17	19
United Kingdom	13	12	14	14
France	6	6	8	9
Italy	6	5	8	9
Canada	48	54	69	71
Japan	38	41	60	66

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The rise in exports to the US in 1985 affected economic growth in the rest of the OECD, but not to the dramatic degree seen in 1984. Real GNP growth in the non-US OECD averaged about three percent, down from 3.5 percent in 1984. This growth was to a large extent related to a rise in exports in general, and to a rise in exports to the US in particular. Total non-US OECD export growth in 1985 accounted for about one-half of the economic growth in that year, a drop from the 1984 figure of two-thirds. Exports to the United States directly accounted for about one-sixth of the gain in 1985, a drop from the 1984 figure of one-third. In Canada, the impact of US imports was much greater than the OECD average. Export growth to the United States directly accounted for a third of Canadian growth in 1985. Japan also experienced a large impact, with export growth to the US accounting for one-quarter of the real GNP growth in 1985.

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